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UNCLAS SECTION 01 OF 05 PARIS 000456

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TREASURY FOR DO/IDD AND OUSED/IMF
SECDEF FOR USDP/DSAA
PASS EXIM FOR CLAIMS -- EDELARIVA
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SUBJECT: PARIS CLUB - JANUARY 2006 TOUR D'HORIZON

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SUMMARY

[¶](#) 11. (SBU) At the January 18 Paris Club meeting, creditors agreed to raise Jordan's debt swap ceiling from 30% to 40%. The US and UK were the most vocal advocates, arguing that Jordan was an important ally facing serious economic vulnerabilities despite progress implementing key economic reforms. Creditors welcomed Brazil's offer to prepay its 1992 previously rescheduled debt. Russia announced that it could not provide financing assurances for Cambodia's new PRGF due to an ongoing bilateral debt dispute. The US expressed optimism that its own bilateral debt dispute with Cambodia would be resolved soon. At a separate meeting, G-7 debt experts agreed that Russia's proposal to link a further prepayment of its debt to increased contributions to the World Bank's International Development Association (IDA) was unworkable in its current form. However, the G-7 is willing to explore creative solutions for providing Russia the political cover it needs to make a substantial contribution to IDA. Other countries on the agenda included Angola, Argentina, China, Iraq, Nigeria, Sao Tome and Principe, Serbia Montenegro, and Sierra Leone. END SUMMARY.

ANGOLA

[¶](#) 12. (U) Creditors discussed the Secretariat's working paper on preconditions and modalities of a possible future debt treatment for Angola. Several creditors commented that it was premature to discuss modalities at this time, and that it was more important to focus on restoring intercreditor equity and convincing Angola to cooperate with the IMF. The Secretariat agreed to contact the authorities informally to

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try to gauge their interest in normalizing relations with the Paris Club, and to convey creditors' willingness to treat Angola's debt in the context of an upper credit tranche IMF program (without getting into the specifics of a such a treatment). Creditors decided to hold off on sending a formal letter to the authorities until more information is known about their intentions. An IMF Article IV mission is scheduled to go to Luanda in February or March.

ARGENTINA

[¶](#) 13. (U) The Secretariat will reach out informally to the authorities to try to determine their intentions vis--vis the Paris Club. To date, the Secretariat has not been contacted by the new economic team, notwithstanding rumors in the press that Argentina may be considering a Paris Club repayment. The US commented that a full prepayment seemed unlikely given the current level of reserves. At the suggestion of the US, the Secretariat agreed to launch a data call to determine the amount Argentina owes to Paris Club creditors.

BRAZIL

[¶](#) 14. (U) Creditors welcomed Brazil's offer to prepay its 1992 previously rescheduled debt, provided Brazil first clears arrears reported by Canada, the Netherlands, and France. Japan is the largest creditor (390 million dollars outstanding), followed by France (326 million euros), Germany (318 million euros), and the United States (154 million dollars). Germany said its participation was uncertain; Japan and Sweden said it would be difficult to meet Brazil's compressed timetable. The Secretariat has prepared a response to the authorities.

CAMBODIA

[¶](#) 15. (SBU) The IMF said it was close to finalizing a new

Poverty Reduction and Growth Facility (PRGF) for Cambodia, for which financing assurances would be needed from the Paris Club - preferably by email, rather than waiting for the March meeting. Russia announced (to the surprise of others) that it was not in a position to provide financing assurances at this time due to an ongoing dispute with Cambodia that continues to delay conclusion of a bilateral agreement implementing the 1995 Paris Club agreed minute. (The dispute relates to what interest rate Russia should charge on rescheduled post-cutoff debt.) The US said it was prepared to provide financing assurances as soon as Cambodia agrees on the amount of debt owed to the US. The Secretariat concluded that creditors would revisit this

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issue once both disputes had been settled.

CHINA

16. (U) Responding to creditors' desire to learn more about China's external creditor status, the IMF reported that it had designed a questionnaire and passed it to the authorities during a recent staff mission. The authorities' reaction, however, was guarded, and the Fund believes it would be helpful if the Paris Club followed up. The Secretariat said Paris Club Chairman Musca would try to

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contact his Chinese counterpart.

IRAQ

17. (U) Seven creditors - Australia, Finland, Korea, the Netherlands, Russia, Sweden, and the UK - have yet to sign their bilateral agreement with Iraq implementing the 2004 agreed minute. Korea and Russia appear to be the farthest from completion; the other five creditors expect to finalize their bilateral agreements in the near future. The Secretariat provided an update on Iraq's progress in

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obtaining comparable treatment from non-Paris Club sovereign creditors and commercial creditors.

JORDAN

18. (SBU) Creditors agreed to raise Jordan's debt swap ceiling from 30% to 40%. Several creditors (Belgium, Canada, Denmark, Japan, Netherlands, Norway, Sweden, Switzerland) expressed skepticism about the efficacy and fairness of debt-for-equity swaps, and raised concerns about setting an unwanted precedent. The US and UK countered that Jordan was an important ally facing serious economic vulnerabilities despite progress implementing key economic reforms. Germany offered a compromise solution by proposing an increase in the debt swap ceiling to 40%, rather than 50% as requested by Jordan. The Secretariat noted that the UK and France are the only two creditors to have reached the existing 30% ceiling. The Netherlands mentioned its surprise that the Jordanians were so well informed about creditor positions, when Paris Club talks are supposed to be confidential among creditors. Separately, creditors agreed

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to extend the consolidation period of Jordan's current Paris Club arrangement.

NIGERIA

19. (U) Belgium, Brazil, Finland, France, Germany, Italy, the Netherlands, Switzerland, the US, and the UK confirmed that they have signed their bilateral agreements with Nigeria implementing the 2005 agreed minute. Japan said it expects to sign soon. Belgium, France, Germany, Italy, the Netherlands, Switzerland, and the UK have already drawn the first and second tranche payments deposited by Nigeria at the BIS. The US reported that its bilateral agreement with Nigeria would enter into force on January 20, at which time, it would request the transfer of amounts held for the US in escrow at the BIS. Separately, creditors reacted unfavorably to a letter from Nigeria's Debt Management Office requesting creditors to consider debt-for-equity swaps instead of cash payments. The Secretariat will draft a negative response.

RUSSIA

110. (SBU) G-7 debt experts exchanged similar views on Russia's prepayment/IDA proposal. Participants welcomed another Russian prepayment in the Paris Club (though Germany and France expressed uncertainty about their participation) and were encouraged by Russia's offer to contribute up to 500 million dollars to IDA. At the same time, participants said their budget laws precluded any direct link between Paris Club prepayments and contributions to IDA, and no country was willing to reopen the level or nature of its IDA

commitment. The US clarified that it was not fully on board with the Russian proposal (as some had been led to believe), but was open to adapting the proposal. Other participants agreed that it was worth thinking creatively to find language that would give Russia the political cover it is seeking, though France was skeptical that vague statements would suffice. In addition, France was concerned about the prospect of the G-7 presenting another Russian prepayment as a fait accompli to the non-G-7 members of the Paris Club.

SAO TOME AND PRINCIPE

¶11. (U) STP has yet to rectify payment problems with its Paris Club creditors. Russia reported that it had reimbursed STP for amounts overpaid, but Spain and France remain underpaid. The Secretariat will prepare a letter to the authorities. (The US is not a creditor.)

SERBIA MONTENEGRO

¶12. (U) The final review of Serbia's IMF Extended Fund Facility (EFF) is scheduled to come to the IMF Executive Board on February 1, provided the authorities complete one remaining prior action (related to fiscal measures to be taken if the 2005 fiscal outcome falls short of the program target). The final tranche of debt reduction (15%) associated with the November 2001 agreed minute is contingent on completion of the review.

SIERRA LEONE

¶13. (U) Creditors agreed to provide financing assurances for Sierra Leone's new PRGF, expected to come to the IMF Executive Board in February. Once the program is approved, creditors will resume interim Heavily Indebted Poor Countries (HIPC) relief retroactive to June 2005, when the previous PRGF expired. The IMF said HIPC completion point could be reached in the second half of this year.

PARIS CLUB HANDBOOK AND DEBT SWAPS REPORT

¶14. (U) The Secretariat distributed a preliminary glossary of Paris Club terms for creditors' comment. The US is the only country to have provided comments thus far. The Secretariat will distribute a revised debt swap report to

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creditors by email.

STAPLETON#